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SUBJECT: CHINESE INVESTMENT IN THAILAND (C-AL5-01054)

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¶1. (SBU) Summary: Well known as a destination of foreign investment, China is becoming a foreign investor in its own right and is seeking out investment opportunities in Thailand. Encouraged by a friendly business atmosphere and a stable environment for investment, Chinese investors see Thailand as a manufacturing and export base to expand markets in the rest of ASEAN. Net investment remains relatively low, a reflection of the generally conservative nature of most Chinese investment here, but trend lines for future investment point up, with some Thai officials predicting that China will one day become one of the top investors in Thailand. The Thai government sees an opportunity in China as a new investment suitor and has made a high-level commitment to encourage their northern neighbors to invest in numerous projects. Chinese investors are still finding their way through unfamiliar territory, but certain cost advantages and improving analytical and management methods are brightening their investment future. End Summary.

¶2. (SBU) Thirty years after China renewed diplomatic relations with Thailand, Chinese investors flush with capital and newly confident of their business acumen have begun to seek out investment opportunities in Thailand. Although traditionally a direct competitor with Southeast Asia for foreign investment, China has found niches for its own investment in the region in pursuit of an outward investment strategy to participate in international capital markets and stake its own claims overseas.

¶3. (SBU) Although investment numbers from China are still dwarfed by overall foreign investment statistics, the growth of Chinese investment has been rapid. In 2003, Thailand's Board of Investment (BoI) set a goal of expanding Chinese investment by 30 percent for the year; instead investment rocketed up 300 percent in 2004. In 2005, BoI approved 12 new projects submitted by Chinese investors for a value of 2.2 million baht (USD 57 million), about half that of 2004, but a number of large projects applied for toward the end of 2005 have yet to be approved. Chinese companies have made direct investments in 154 different investment projects in Thailand, with a net value of USD 773 million. The largest investments are in garments and light industry, but substantial investments exist in such diverse areas as chemicals and plastics, mining, machinery, electronics and agribusiness. Most projects are small to medium enterprises, but many of the larger and better known companies from China such as Huawei and TCL, which have the capital and technical knowledge to support larger projects, are making their presence known. RTG goals for future Chinese investment are ambitious, with plans for a 35 percent growth in investment from China in 2006 and talk of China one day soon becoming a top investor in Thailand.

14. (SBU) China's investment goals in its overseas bids have ranged from resource-seeking in Africa and Latin America to technology-seeking in the U.S. For Thailand, analysts see China utilizing a market-seeking investment strategy, using the country as a production base to expand its market share in Thailand, and as a springboard for exports to the rest of Southeast Asia. Thailand has promoted this strategy as well and is marketing itself as a bridge connecting China to other ASEAN members, promoting its strategic position in ASEAN, its abundant labor, solid base of production technology and large consumer market. Further, Thailand's network of bilateral free trade agreements, some completed and others still in the works (including with the U.S.), provide an avenue for tariff-free trade for Chinese manufacturers in Thailand, and also a means to sidestep quotas on Chinese manufacturing, most notably in apparel exports.

15. (SBU) Thailand's Board of Investment claims that China has successfully planted more investment in Thailand than in any of its ASEAN neighbors. Mr. Vikrom Kromdit of the Thailand-China Business Council says Chinese investors see much to like in Thailand, including a long history of good relations (in contrast to their occasionally touchy relations with other SE Asian countries), and a stable political and economic situation. Close cultural relations bring an added advantage. According to Vikrom, Chinese investors feel an affinity with Thai culture and are comfortable dealing with Thai businessmen, many of whom are of Chinese descent. For their part, Thais are positive about their expanding relations with China. In a recent poll, 83 percent of Thais

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said they had a favorable opinion of China (73 percent had the same opinion of the U.S.), and 97 percent said the bilateral relationship with China was good.

16. (SBU) This positive view persists despite the widely held view here that China tends to trade unfairly and has received a disproportionate share of the benefits of the 2003 China-Thai "early harvest" covering bilateral free trade for about 35 fruits and vegetables. During a visit to Thailand's northern Chiang Rai and Chiang Mai provinces, billed by the RTG as the country's "gateway to China", businessmen invariably complained to econoff about the uneven playing field they face when trading with China. Problems range from a Chinese monopoly on river traffic on the Mekong ("only the Chinese know when they will open the dams allowing boats to navigate during the dry season"); to the extremely low price for Chinese garlic and vegetables (below cost for Thai farmers, "is it due to hidden subsidies?"); to the Chinese provincial authorities applying non-tariff barriers to goods imported directly by Thais rather than through Chinese middlemen, e.g. applying sanitary and phyto-sanitary regulations more stringently to goods exported by Thais than to those exported by Chinese.

17. (SBU) Thai trade with China is also inhibited by a lack of understanding of Chinese rules and regulations. Some bankers in the North told us that letters of credit are available only "government-to-government", another said Thai insurers won't cover shipments to China. This confusion among smaller Thai exporters has given the opportunity for Chinese traders to control the exports of certain Thai products (especially fruits and vegetables) into the Chinese interior. The large Thai companies in the food processing industry tend to ship directly from Bangkok to Chinese ports and indicate few problems with their transactions. The Chinese agricultural goods traders have invested in some small-scale food processing businesses but generally have confined their operations to purchase and transport of final product.

18. (SBU) Mr. Pisanu Rienmahasarn, Deputy PermSec of the

Ministry of Commerce, told Econoff he saw China's increased investment in Thailand as an extension of its "Go West" policy, opening up economic opportunities in China's western frontier and taking advantage of their southern provinces' relative proximity to Thailand. The provincial government of China's Yunnan province, situated directly north of Thailand separated by parts of Burma and Laos, have engaged with RTG officials in northern Thailand to improve the flow of trade, investment and tourism between the two regions. China, Laos and Thailand have linked up with the Asian Development Bank to construct a road through Laos that would link Kunming in Yunnan province to Chiang Rai in northern Thailand. Although there is a current road link through Burma, the route is considered insufficient for the heavy volume of goods flowing from China, and concerns remain about political stability in Burma. The RTG has provided loans to Laos for road construction and a bridge across the Mekong River, and expects the project to be completed by the end of 2007. The RTG is also upgrading ports along the Mekong River to handle increased traffic flow; Chinese shipping companies already dominate river traffic. A rail link from Kunming to Thailand's Laem Chabang port near Bangkok is also under consideration by regional governments.

19. (SBU) In anticipation of greater trade between Yunnan and northern Thailand, Yunnanese authorities and local officials in Thailand's northern Chiang Rai province have been planning a Northern Region Industrial Estate to accommodate anticipated investment from China. Although dozens of Chinese companies stated intentions of investing, the project has stalled out lately in the face of political problems with the original proposed site in Chiang Saen district. The industrial estate promises to take advantage of the coming road, rail and port improvements between southern China and northern Thailand, but may not be the center of bilateral trade as it was once anticipated. Dr. Sompop Manarungsan, Director of China Studies at Chulalongkorn University, speculated that the industrial estate may never get off the ground. As the implementation date of the China-ASEAN FTA comes nearer and tariffs fall across the region, there will be fewer reasons to focus on northern Thailand as a gateway to the rest of ASEAN. One Chiang Mai businessman, who ships Thai products by sea, noted that southwest China "is poor and can't afford the higher cost/higher quality goods that we produce in Thailand. There is no reason to trade with Yunnan. Our market is China's seacoast."

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Looking for opportunities

10. (SBU) China's investments in Thailand to date have followed little overall strategy other than a search for profitable investment opportunities. Analysts see no central coordination of China's investments other than provision of loans by the Chinese government to overseas investors. China's investments appear to focus on trade creation and taking advantage of China's comparative strengths. In contrast to investments from developed countries, which typically focus on comparative advantages in technology, management and marketing, China's investments in Thailand lie in their advantages in flexibility and cost, in particular lower salaries for technical staff. China analysts suspect that in addition to already low costs, some Chinese companies have bid on projects at below cost, accepting the short-term losses in a bid to gain experience and better position themselves for future projects. Chinese companies most frequently team up with Thai partners in new investments. Companies have to date not focused on mergers or acquisitions or taking over established Thai brands as a means to enter the market as has been seen in other countries.

11. (SBU) China's cost advantage in construction has raised expectations for a burgeoning presence of Chinese

construction firms. Dr. Sompop of Chulalongkorn University speculated that the oversupply of construction companies in China is fueling interest in overseas construction projects to make use of idle capacity. The RTG is actively encouraging Chinese investment in construction of its new megaprojects infrastructure development program, and predicted that twenty percent of the contracts for the USD 24 billion program will go to Chinese firms. However, a recent meeting for international investors on megaprojects was sparsely attended by Chinese.

¶12. (SBU) China's new traveling class (the fourth largest source of visitors to Thailand in 2004) is opening up new investment opportunities overseas as well. The Chinese New Year in January saw a large influx of Chinese tourists, bringing Thailand closer to its goal of expanding annual tourism figures from one million Chinese visitors (actual 2005 total was 800,000) to three million by the end of 2010. The Tourism Authority of Thailand (TAT) budgeted 10 million baht (USD 250,000) for Chinese New Year festivals in Bangkok and other provincial tourist destinations to attract mainland tourists. After a post-tsunami downturn in visitors from the mainland in 2005, the number of Chinese tourists is gradually improving. Airlines have expanded direct flights between China and Thailand and the RTG is encouraging even more. Incoming tourists are sparking an interest in Chinese investment in hotels and resorts in Thailand and travel agencies to guide them in. In September 2005 the TAT signed a tourism agreement with three Chinese tour operators and a public relations company, Publicitas China, to raise the profile of Thailand in China and market Thailand to Chinese tourists.

¶13. (SBU) Thailand is not considered a rich source of energy for China, but Chinese oil companies have nevertheless expressed interest in working with the Petroleum Authority of Thailand (PTT) on energy projects. PTT and China's oil major Sinopec announced in June 2005 that they were considering a joint project to build an oil pipeline across the Isthmus of Kra to connect the Andaman Sea to the Gulf of Thailand and bypass the increasingly congested Strait of Malacca, cutting as much as a week of transportation time for crude oil shipments to China from the Middle East and improving security of shipping routes. However, the oil pipeline project has been under consideration by the RTG for years and previous feasibility studies cast some doubt on the financial viability of the project (reftel). To date the pipeline remains in the planning phase and is not expected to go forward. Another Chinese oil producer, CNOOC, has agreed to work with PTT to explore new oil fields in Thailand and abroad, and to seek new potential in existing Thai oil fields.

Thais lend a hand

¶14. (SBU) Eager to tap into China's enormous foreign exchange reserves, Thailand is actively encouraging mainland investment. The two countries formed the Thailand-China Joint Committee on Trade, Investment and Economic Cooperation in 2004 to promote economic ties. At the most recent meeting in September 2005, the two countries signed 11 agreements over issues from logistics cooperation down to trade

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protocols for crocodile meat. The Thai side is represented by Deputy Prime Minister Somkid, designated "Mr. China", with responsibility for promoting bilateral investment with China. Somkid has made monthly trips to China and has been hosting a continual procession of visiting Chinese dignitaries, speaking at investment conferences, and overseeing the signing of trade and investment deals. As part of the Joint Committee, the two sides have established a working group with Yunnan province which holds regular meetings regarding trade, investment, culture, and tourism between the two regions. Somkid is pushing Chinese participation in construction, food processing, logistics, electronics and

textiles.

¶15. (SBU) In 2003, Thailand's Board of Investment (BoI), the entry point for most formal investment in Thailand, established a China desk headed by veteran China hand Charas Chitkittichamras. Although Thailand provides no special privileges to Chinese investors, Charas said the BoI saw the need to assist less experienced Chinese investors to learn the ropes of investing in Thailand. The RTG also established the Thailand-China Business Council, headed by Mr. Thanakorn Seriburi, a vice-chairman of Thai conglomerate CP Group (CP Group has considerable interests in China, especially in the food processing and retail sectors). The Business Council has been active in arranging investment conferences and partnering Chinese investors with local firms.

¶16. (SBU) Mr. Piroon Laismit, Director of the China Desk at the Ministry of Foreign Affairs, said that Thailand's close relations with Taiwan have not slowed the formation of closer economic relations with China. Although Thailand closely follows the One China policy, their relations with Taiwan go back for decades and are still valued. Taiwan is among the top three investors in Thailand and Piroon estimated 10,000 Taiwanese businessmen were resident here. Piroon believed China was pragmatic enough to keep political and economic issues separate and said he had felt no pressure from China on economic matters with Taiwan. Nevertheless, he conceded that any future problems between China and Taiwan would be likely to affect their own bilateral relationships with the two nations.

Much ado about nothing?

¶17. (SBU) Despite the impressive growth in Chinese investment and the attention given to it by the RTG, analysts stressed to Econoff that investment from China was still a fraction of that from more established foreign investors from North America, Europe and Japan, and still had little impact on the Thai economy. When asked where China stood on the list of foreign investors in Thailand, BoI's Charas replied, "They're not even on the list." The latest BoI statistics show Chinese investment as still only one percent of net foreign investment. Charas noted also that Thais have been investing in China for the last twenty years and Thai investment in China was over ten times the value of Chinese investment in Thailand. As yet no Chinese companies have listed on the Thai stock exchange.

¶18. (SBU) Analysts pointed out the numerous difficulties faced by Chinese investors. Most Chinese are relatively inexperienced in overseas investment compared to their Western or Japanese counterparts and are unfamiliar with the investment environment. Despite the prevalence of Thai-Chinese businessmen in Thailand, mainland Chinese investors tended to speak a different dialect than their counterparts, and did not have advanced English language skills to communicate with their partners and customers. When confronted with problems, Mr. Charas said that Chinese firms had a tendency to send their own experts from China to solve problems rather than relying on local staff, usually with less than stellar results. One representative from the largest Chinese investor in Thailand, Worldbest, spoke of the difficulties the company had after setting up business in ¶2001. Despite its size (accounting for at least a quarter of all Chinese investment in Thailand) the firm faced difficulties in breaking into local supply networks. Without established relationships with suppliers, Worldbest found itself low on the priority list for supplies and met production delays.

¶19. (SBU) Though some companies have found rough going in starting new investments, future Chinese investments may be more successful, if for no other reason than that the RTG wants it that way. BoI sifts through investment applications from Chinese investors and is approving only those it

believes will be successful. With Chinese investment still in a nascent stage, BoI is careful to manage perceptions about investment in Thailand and is wary of news of failed investments filtering back to China and discouraging future investors. Chinese investors are also quickly learning the investment game and are being more systematic in their investment approach. According to BoI's Charas, initial Chinese investments tended to focus on areas where an investor had a personal relationship with a partner in Thailand, without necessarily examining all the investment factors and the profitability potential of the venture. These days young Chinese MBAs schooled in modern management methods are leading the new wave.

¶20. (SBU) Despite RTG assistance, Chinese investors have hardly been a juggernaut. A tobacco joint venture in Chiang Mai has suffered from financial disputes and there have been numerous anecdotes of plans for Chinese-invested projects in the Northeast being cancelled after environmental concerns were raised. High hopes for a recent bid by Chinese conglomerate CITIC Group to build a rail link to Bangkok's new Suvarnabhumi Airport were dashed after a European consortium outbid the Chinese. However, in January, Thailand's biggest construction contractor said it would partner with CITIC to bid on twenty major projects in Thailand.

¶21. (SBU) Comment: Despite going through some expected growing pains, Chinese investment is beginning to come into its own and trends indicate rapidly increasing Chinese participation in the Thai market. Bilateral trade is ballooning, and investment is likely to follow directly in its path. Bilateral trade reached USD 12 billion in 2004 with preliminary estimates of a 75 percent increase in 2005. Deputy PM Somkid said recently he was confident that trade would reach USD 50 billion by 2010 (bilateral trade with the U.S. totaled USD 26 billion in 2005). There are few fears that China, Inc. will steamroll the competition anytime soon, but the Thais have sat up and taken notice that a new player has taken a seat at the investment table even as they are aware that Chinese are typically careful investors and have a difficult market to crack. End comment.
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